PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

Improving Economic Development for Distressed Counties

The Program Evaluation Division (PED) and the Department of Commerce (DOC) both proposed changes to the economic development tier system in 2015. In an effort to minimize confusion between the proposals, PED compiled this comparison, which includes discussion of drawbacks to the DOC proposal identified during PED interviews with economic development professionals and academics.

PED proposes a strategy to improve economic development for distressed counties.

In December 2015, the Program Evaluation Division released a report entitled "North Carolina Should Discontinue the Economic Development Tiers System and Reexamine Strategies to Assist Communities with Chronic Economic Distress." **The report recommended that the General Assembly engage in a process to reform identification of and assistance to economically distressed counties.**

1. Non-economic development programs currently using the tiers system to distribute state funds should discontinue this practice by **July 1, 2017**. Programs currently using the tiers system should develop award/assistance criteria consistent with program objectives and report these new criteria to the Fiscal Research Division and their respective legislative oversight committees by **October 1, 2016**.
2. The Department of Commerce should discontinue use of the tiers system, develop new award/assistance criteria for economic development programs, and present these new funding criteria to the Joint Legislative Economic Development and Global Engagement Oversight Committee and the Fiscal Research Division by **July 1, 2018**.
3. The General Assembly should form a legislative commission to reexamine the State's strategy for identifying and assisting economically distressed communities. This commission would be directed to:
    - determine how and at what geographic levels economic distress should be measured;
    - decide which measurements, data sources, and time periods should be utilized to determine which areas of the State are experiencing economic distress;
    - review the mission and resources of existing development programs and tools provided to assist distressed communities;
    - identify how state resources can be directed to alleviate distress within communities;
    - consider the Appalachian Regional Commission's approach for identifying distressed areas at both the county and census tract levels as well as its use of capacity-building strategies;
    - recommend strategies for new economic development programs and for improving access to existing economic development tools for businesses and individuals in distressed communities; and
    - create a plan to measure performance towards state economic development goals for chronically distressed areas.

    This commission would be established in 2016 after formal approval by the General Assembly and would complete its mission by **March 1, 2018**.

The Department of Commerce proposes revision of the tool used to identify distressed counties.

The Department of Commerce does not contest the Program Evaluation Division's report findings and supports replacement of the economic development tiers system. **Commerce would like to modify the existing formula for identifying economically distressed areas instead of engaging in a stakeholder process to examine these issues in greater depth.** Commerce's proposed changes to the State's formula for measuring economic distress include the following:

- removing adjusted assessed property value per capita and the percentage growth in population factors and adding average annual wages to the formula;
- removing all existing low population and poverty adjustments;
- transitioning from a ranking system to an index in which there would be no designated tier levels; and
- calculating the index every other year instead of annually.

Concerns with Commerce's Proposal

Simply revising criteria does not ensure distressed areas will be awarded more state funds, does not allow for an examination of current barriers to economic development, and provides no mechanism to provide strategic planning and measurement to economic development activities. Stakeholders interviewed by the Program Evaluation Division commented that Commerce's proposed measures may not capture the complexity of economic distress. Ideally, the measures used in an index will capture different pieces of information about economic conditions. Academic stakeholders expressed concern that the proposed system was a step backward because it placed greater emphasis on employment and wage variables and removed the only variables—adjusted assessed property tax per capita and percentage growth in population—that quantified other aspects of economic distress. Furthermore, economic developers expressed concern that the Commerce proposal would not identify economically challenged areas within prosperous counties.

As part of the Program Evaluation Division's proposed legislation, the commission, with input from the Department of Commerce, academic experts, and economic development professionals, would examine which measures should be used to define economic distress. There are many different factors that can be used to assess economic performance. Traditional measures include median family income, poverty rate, per capita income, and unemployment rates. Less conventional measures that have been used include income/poverty ratio, labor force participation rates, educational attainment, and changes in the number of business establishments. There also are technical considerations such as measurement time periods, data sources, and statistical procedures that must be considered in developing a meaningful data tool. As part of the commission's work, the Department of Commerce's plan to replace the tiers system with an index could be evaluated.

Reexamination of North Carolina's approach to identifying and assisting economically distressed communities offers an opportunity to develop a comprehensive state strategy to address chronic distress and target state aid to these communities. Although North Carolina has experienced rapid economic advancement in the last 30 years, the State still has counties and individual communities experiencing chronic economic distress. Existing business recruitment programs cannot address the complex challenges faced by communities experiencing chronic economic distress. PED's proposal is for the General Assembly to engage in a process to reform identification of and assistance to economically distressed counties. This process would be more beneficial to the State than a revision to the existing tiers system because it would possess the following attributes.

- **Transparent.** The identification of economically distressed areas and the development of proposals to provide more support to these areas are issues that affect individuals, local governments, and businesses across the State. Unlike the Department of Commerce's proposal, which was developed without stakeholder involvement, a legislative commission would provide a forum for public input and deliberation.
- **Knowledge-based.** A formal commission would be able to compensate economic development professionals, experienced consultants, academic experts, and federal officials to obtain a variety of opinions about economic measures that could accurately gauge economic distress, determine which data sources and time periods should be used, and decide how to develop and implement realistic strategic goals and measurements.
- **Accountable.** The commission would be tasked with creating goals and objectives for economic development in distressed areas and include a management plan to determine how the State is progressing towards achievement of these goals.